CUMBERLAND

Strategy Review
April 2012

It was only a few short months ago when the Eurozone was in the midst of a liquidity crisis that felt like it was about to morph into a global contagion. And despite the initial widespread skepticism around the efficacy of the Long Term Refinancing Operation (LTRO), it clearly provided the necessary liquidity for the European banking system. Once those fears subsided, the market redirected its concerns from the European sovereign debt crisis to a number of economic indicators in the U.S., the world's largest economy.

During the first quarter, positive economic data points in the U.S. included better headline unemployment data, stronger than expected auto sales and a rising consumer sentiment index that hit a one year high this past March. Even the homebuilder confidence index, as measured by the National Association of Home Builders, reached a four year high in February suggesting the U.S. housing market is finally moving toward more sustainable growth. This sparked a significant rally in the U.S. stock market with the S&P 500 measured in U.S. dollars gaining 12% in the first quarter of 2012. Measured in equivalent Canadian dollars, the S&P was still up a respectable 10.0%. Strong performance from Information Technology (+22.2%), Financials (+19.2%) and Consumer Discretionary (+16.6%) led to the strongest first quarter gain seen in the S&P since 1998. In fact, there has been only eight times since the formation of the S&P 500 constituents where this index has performed better in the first quarter. For each of those years, the U.S. market posted full year positive returns with the average return over the remaining three quarters being 7.2%.

With the exception of China, most markets globally seemed to benefit from the effect of the LTRO. GDP growth in China is targeted to slow to 7.5% for 2012. This is down from 9.2% in 2011. While this still appears to be a decent level of growth relative to the rest of the world, it does not appear to be enough to satisfy market expectations. Gold rose 6.8% in the first quarter to U.S. $1,670 per ounce and oil (WTI) increased 4.1% to U.S. $102.93 per barrel. However, neither of these gains were enough to stop the sell-off witnessed in the commodity stocks in Canada. For the first quarter of 2012, the S&P/TSX Composite total return was 4.4%. Strong performance from Healthcare, (+15.7%) which is essentially one stock in Canada, Consumer Discretionary (+14.0%) and Financials (+11.0%) were the drivers of returns for the S&P/TSX in the first quarter of 2012.

Asset Allocation (as at March 31, 2012)	
Equity	77.8%
Bonds	10.6%
Cash	11.6%

During the first quarter, our net allocation towards equities increased approximately 3% to 78% in our core Capital Appreciation model. This was essentially sourced from cash reserves. The additional allocation to equity was skewed slightly to the U.S. Directionally, we are looking to allocate more equity weight toward the U.S. and this will likely be sourced from Canadian equities or cash reserves. During the first quarter, the overall return of the Cumberland Capital Appreciation model slightly lagged the C$ 50/50 Canada/U.S. benchmark given the strong performance of the S&P 500 and the fact that we were intentionally not 100% invested in equity because of headline risk out of China, Europe and Iran. In ad-

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dition, the cost of the portfolio insurance that allowed us to stay invested during times of heightened market uncertainty detracted from our performance slightly, as expected it would with an upturn in the market. This applies to option eligible accounts only. New positions added to the Portfolio during the first quarter included Agrium, Canadian Imperial Bank of Commerce, Cineplex, Parex Resources, CACI International, Delphi Automotive and Western Union. A summary of these companies' business fundamentals and valuation metrics is contained in the attached appendix.

Outlook

While investors will likely remain vulnerable to headline risk out of China, Europe and Iran over the coming months, we continue to expect a gradual improvement in the U.S. economy. The second quarter is off to a weaker start but this will undoubtedly be heavily influenced by the quarterly earnings reports, which the majority of the S&P 500 companies will report in the coming weeks. Of the companies that have reported so far, about 75% have beaten Wall Street's expectation, which should provide some positive bias to improving market fundamentals going forward. There are a number of reasons why we maintain that equities remain the most attractive asset class: the level of liquidity remains high in the global financial system, the Fed is maintaining a policy of low rates through 2013 and dividend yields for the S&P 500 at 2.14% and the S&P/TSX composite at 2.88% remain attractive relative to 10-year bond yields of 2.21% and 2.11%, respectively. Furthermore, 2012 is an election year in the U.S. which has historically been positive for equity markets. We believe there is room for more positive returns from equities over the balance of 2012.

Peter Jackson
Chief Investment Officer
April 15, 2012.

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APPENDIX 1- New Equity investments in the Quarter ended March 31, 2012

Canada

Agrium
Agrium is a fertilizer producer and retailer operating in North and South America, Argentina and Australia. At the date of purchase, it was trading at a deep discount to the sum of its parts. Agrium's retail assets are largely ignored by the market and it is being indiscriminately included with its more volatile wholesale business. Yet, Agrium's retail operations represent a fast growing component of its overall business and should be a catalyst to a revaluation if the assets were split apart.

Canadian Imperial Bank of Commerce
CIBC provides retail and business banking, wealth management and wholesale banking services in Canada. CIBC trades at industry valuations too cheap to ignore in a yield hungry environment. It generates an industry leading ROE and is supported by the highest Tier 1 capital ratio among the Canadian banks. At the time of purchase, it traded at a higher than usual discount to the other Canadian banks, paying a 4.7% dividend yield. It is well positioned to increase its earnings by redeeming high cost preferred shares on its balance sheet and we expect further increases in the dividend to follow.

Cineplex Inc.
Cineplex Inc. is the largest motion picture exhibitor in Canada with a 66% market share of the total Canadian box office revenue in 2011. The company continues to grow its revenues in both traditional theatres and through their media division which represents 30% of EBITDA and is growing at 20% per annum. In addition, with the demise of Blockbuster, Cineplex is poised to take advantage of the cloud-based "download to watch" and "download to own" streaming business within the home which is expected to become available in July 2012. The stock pays an attractive and growing dividend yielding 4.4%.

Parex Resources
Parex Resources is a mid-cap South American and Caribbean oil producer with all of its current production in Colombia. Colombian oil producers receive premium pricing for their crude relative to Canadian producers. Colombian producers are better capitalized, have greater production and reserves and a much larger exploration acreage positions than in the past, yet they trade at deep discount valuation relative to traditional levels. Parex will benefit from its growth in production and an eventual market normalizing of Colombian oil valuations.

United States

CACI International
CACI International provides professional services and information technology solutions to the U.S. defense department with a focus on intelligence, cyber-security and counter-terrorism. Although spending on defense is expected to weaken, CACI participates in a growth area within U.S. defense spending. Revenue and earnings growth has exceeded 15% per annum over the past 4 years and the strong pipeline of proposals suggests this growth should continue.

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APPENDIX 1- New Equity investments in the Quarter ended March 31, 2012 (Cont.)

Yet, market perception of a decline in this sector has caused the stock to trade at a discount valuation and thereby created an attractive buying opportunity for this growing company.

Delphi

Delphi is a Tier 1 automotive supplier that manufactures critical components for light vehicles and trucks from 115 facilities in 30 countries. The Company is well positioned relative to its competitors after having emerged from a bankruptcy restructuring in which it shed most of its low margin businesses and reduced labour expenses. After four years of stagnant new model launch activity, Delphi is positioned to profit from a multi-year product reinvestment cycle in the automotive industry as original equipment manufacturers accelerate launches over the next two years. This combined with stronger consumer confidence and rising auto sales is expected to drive top line growth and margin expansion for this high free cash flow generating company.

Western Union

Western Union is the largest global consumer money transfer agent, with 485,000 locations in 200 countries. Western Union's target market is the two billion unbanked and underbanked consumers who need access to services but are not profitable for the mainstream financial system. 84% of its revenues are from consumer-to-consumer money transfers, the vast majority of which are cash transfers done at physical locations. This asset-light business model generates high free cash flow. This has generated significant dividend growth and share buybacks for Western Union over the past four years which should continue into the future. Western Union should also benefit from a recovery in housing and manufacturing in the United States and the recent restart of Middle East infrastructure projects.